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UNCLAS SECTION 01 OF 04 PODGORICA 000001

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SUBJECT: MONTENEGRO: ECONOMIC DEVELOPMENTS: NOVEMBER-DECEMBER 2006

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MACROECONOMICS

GOVERNMENT BUDGET PASSED FOR 2007

¶1. ON DEC. 27, THE MONTENEGRIN PARLIAMENT ADOPTED THE BUDGET FOR 2007 IN THE AMOUNT OF EUROS 617 MILLION, UNDER WHICH CURRENT AND CAPITAL EXPENSES HAVE BEEN SEPARATED FOR THE FIRST TIME EVER. (THE SEPARATION, COMMON PRACTICE IN EUROPE AND ELSEWHERE, WAS FACILITATED BY USG EXPERT ASSISTANCE.) TOTAL REVENUES ARE EUROS 85 MILLION HIGHER THAN BUDGETED FOR 2006, WHILE THE CURRENT EXPENSES WILL BE AROUND EUROS 583 MILLION AND CAPITAL EXPENSES AROUND EUROS 34 MILLION. IT HAS BEEN ESTIMATED THAT TOTAL PUBLIC EXPENDITURES IN 2007 WILL BE 42.85 PERCENT OF GDP AND THE PLANNED SURPLUS IS 0.54 PERCENT OF GDP. GDP REAL GROWTH FOR 2007 IS ESTIMATED ON THE LEVEL OF 6 PERCENT AND PROJECTED INFLATION IS 3.4 PERCENT.

GOVERNMENT BUDGET IN SURPLUS

¶2. THROUGH OCTOBER, THE GOM BUDGET SHOWED A SURPLUS OF EUROS 28.35 MILLION, IN CONTRAST TO THE PLANNED DEFICIT OF EUROS 31.6 MILLION. RECEIPTS HAVE TOTALED EUROS 467.66 MILLION, WHILE EXPENDITURES WERE LOWER THAN PLANNED AT EUROS 425.8 MILLION. THE BOOKS HAVE JUST BEEN CLOSED ON 2005, WHEN GOVERNMENT COLLECTED EUROS 581 MILLION, SPENDING EUROS 611 MILLION - ABOUT ONE-THIRD OF GDP.

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INFLATION IN 2006 TO BE "BELOW THREE PERCENT"

¶3. THE CENTRAL BANK OF MONTENEGRO EXPECTS THAT INFLATION IN 2006 WILL BE "A BIT BELOW THREE PERCENT." ITS PROJECTION FOR 2006 AT THE BEGINNING OF THE YEAR WAS 3.8 PERCENT. INFLATION IN 2005 WAS 1.8 PERCENT. MONTENEGRO USES THE EURO, ALTHOUGH IT IS NOT PART OF THE "EURO ZONE."

STRONG GDP GROWTH PROJECTED

¶4. THE GOVERNMENT ANNOUNCED ITS EXPECTATION THAT GDP GROWTH IN 2007 AND 2008 SHOULD BE SIX PERCENT, IN 2009, 5.5 PERCENT, SLOWING IN 2010 AND 2011 TO FIVE PERCENT. IN CONSEQUENCE, GDP IN 2011 WOULD BE EUROS 2.76 BILLION. GOVERNMENT PLANS TO CONTINUE REDUCING ITS PUBLIC DEBT, WHILE SHIFTING ITS REVENUE BASE INCREASINGLY FROM INCOME TAXES TO VAT AND EXCISES.

EXPORT TARIFFS ABOLISHED

¶5. AS OF JANUARY 1, 2007, ALL EXPORT TARIFFS HAVE BEEN ABOLISHED, BRINGING MONTENEGRO IN ACCORDANCE WITH WTO STANDARDS. EXPORT TARIFFS WERE IMPOSED IN 2003 ON RAW MATERIALS.

ELECTRICITY DEMAND TO RISE, PRODUCTION TO SLIP

¶6. THE GOVERNMENT HAS SAID THAT ELECTRICITY DEMAND IN 2007 IS EXPECTED TO RISE TO 4,800 GWH, FOUR PERCENT MORE THAN IN 2006. HOWEVER, DOMESTIC PRODUCTION WILL DECLINE EIGHT PERCENT, TO 2,520 GWH, DUE TO PLANNED OVERHAULS OF KEY POWER PLANTS IN MONTENEGRO.

BUSINESS AND TOURISM:

LAW ON OPTICAL DISKS PASSED

¶7. THE LAW ON OPTICAL DISCS WAS PASSED BY THE PARLIAMENT OF MONTENEGRO, WITHOUT ANY DEBATE, ON DECEMBER 26. THE LAW WAS A CENTRAL POINT INCLUDED IN THE GOM IPR ACTION PLAN AGREED WITH THE USG.

AMERICAN CHAMBER OF COMMERCE TO OPEN OFFICE

¶8. THE AMERICAN CHAMBER OF COMMERCE WILL OPEN AN OFFICE IN MONTENEGRO IN THE FIRST QUARTER OF 2007. THE EXECUTIVE DIRECTOR OF THE MONTENEGRO BUSINESS ALLIANCE (MBA), DARKO KONJEVIC, IS QUOTED AS SAYING THAT SUCH AN OFFICE WOULD ENCOURAGE U.S. COMPANIES TO INVEST IN MONTENEGRO. AMCHAMS OFFICE IN BELGRADE

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HAD COVERED BOTH REPUBLICS PRIOR TO INDEPENDENCE.

ANOTHER LOW COST AIR CARRIER EXPRESSES INTEREST

¶9. GERMANWINGS, THE LOW COST AIR CARRIER OWNED BY LUFTHANSA AND BASED AT COLONGNE/BONN, ANNOUNCED THAT IT IS EXPLORING POTENTIAL ROUTES TO MONTENEGRO. SERVICE WOULD NOT BEGIN BEFORE SUMMER ¶2007. IN THE REGION, GERMANWINGS ALREADY FLIES TO DUBROVNIK, PRISTINA, AND TIRANA.

REAL ESTATE SALES REACH EUROS 570 MILLION

¶10. THE MINISTER OF FINANCE ANNOUNCED THAT SALES OF REAL ESTATE IN MONTENEGRO, THROUGH NOVEMBER, REACHED EUROS 570 MILLION, CALCULATED ON THE BASIS OF RECEIVED CAPITAL TRANSFER TAXES. MOST PURCHASES WERE MADE BY RUSSIANS, BRITISH, AND IRISH, IN THE COASTAL REGIONS.

KAP STRIKE ENDS

¶11. THE STRIKE AT THE KOMBINAT ALUMINA PODGORICA (KAP - ALUMINUM PLANT OF PODGORICA), ENDED DECEMBER 9 AFTER WORKERS ACCEPTED A TEN PERCENT SALARY INCREASE, EFFECTIVE JANUARY 1, 2007. KAP, OWNED BY RUSAL, THE WORLD'S LARGEST ALUMINUM PRODUCER, IS THE SINGLE LARGEST ECONOMIC ARTIFACT IN MONTENEGRO, ACCOUNTING FOR ABOUT 12 PERCENT OF GDP. IT USES ABOUT 42 PERCENT OF ALL ELECTRICITY IN MONTENEGRO, AND ITS ELECTRICITY SUPPLY IS HEAVILY SUBSIDIZED.

PUBLIC ECONOMY:

MINIMUM WAGE TO RISE

¶12. THE MINIMUM WAGE, AT EUROS 50 PER MONTH SINCE JULY 2002, WILL RISE IN STAGES NEXT YEAR UNTIL IT REACHES EUROS 55 IN JULY ¶2007. MANY WAGES IN MONTENEGRO ARE CALCULATED AS A MULTIPLE OF THE MINIMUM WAGE.

T-BILLS

¶13. ONE AUCTION OF TREASURY BILLS, WITH A TOTAL FACE VALUE OF EUR 0.2 MILLION, WAS HELD IN OCTOBER, AND ANOTHER IN NOVEMBER WITH A TOTAL FACE VALUE OF EUR 0.8 MILLION (NOTE: DATA LAGS BY ONE MONTH). THE AVERAGE INTEREST RATE AT THE AUCTIONS WAS 0.42. PARTICIPANTS AT THE AUCTIONS INCLUDED LOCAL BANKS.

¶14. IN 2006, MONTENEGRO SOLD TREASURY BILLS WORTH A TOTAL OF EUROS 12.5 MILLION, IN 15 AUCTIONS. THIRTY-FIVE AUCTIONS WERE HELD IN 2005, SELLING EUROS 109 MILLION.

STOCKS

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NATO PARTNERSHIP FOR PEACE INVITATION HAS POSITIVE EFFECT

¶15. THE MOSTE INDEX OF THE MONTENEGROBERZA STOCK EXCHANGE SHOWED A 12 PERCENT RISE IN THE DAYS IMMEDIATELY AFTER NATO'S RIGA SUMMIT INVITED MONTENEGRO TO JOIN ITS PARTNERSHIP FOR PEACE (PFP). EXPERTS ATTRIBUTED THE RISE TO THE PFP INVITE, WHICH WAS SEEN BY INVESTORS AS DEMONSTRATING INTERNATIONAL CONFIDENCE IN THE STABILITY OF MONTENEGRO AND THE REGION.

¶16. THE NEX20 INDEX OF THE NEX MONTENEGRO STOCK EXCHANGE ENDED THE YEAR UP 84.5 PERCENT, AT 18,050.89, SLIGHTLY OFF THE HIGHS REACHED IN LATE SUMMER. THE MOSTE INDEX OF MONTENEGROBERZA WAS UP 96.2 PERCENT TO 908.436, AGAIN SLIGHTLY OFF RECORD HIGHS EARLIER IN THE YEAR. AS THE MARKETS MATURE, SLIGHTLY LESS VOLATILITY IS BEING SEEN (GROWTH IN 2005 WAS 286 PERCENT FOR THE NEX20, 399 PERCENT FOR THE MOSTE). MAJOR COMPONENTS OF THE NEX20 INCLUDE THE PRIVATIZED TELEKOM CG AND JUGOPETROL; MAJOR COMPONENTS OF THE MOSTE INCLUDE ALUMINUM SMELTER KAP AND VINEYARD PLANTAZE. NOTE: THE MONTENEGRIN EXCHANGES ARE STILL NASCENT, AND THE LEVEL OF CAPITALIZATION REPRESENTED IS SMALL ALTHOUGH RISING (NEX CAPITALIZATION AT THE END OF 2004 WAS EUROS 495 MILLION; AT THE END OF SEPTEMBER 2006 2005 IT WAS EUROS 1,087 MILLION).
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